

**RURAL WATER DISTRICT #1, INC.  
CRAWFORD COUNTY, KANSAS**

Regulatory Basis Financial Statement,  
Independent Auditors' Report, and  
Regulatory-Required Supplementary Information  
For the Year Ended  
December 31, 2019

**RURAL WATER DISTRICT #1, INC.  
CRAWFORD COUNTY, KANSAS**

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# Diehl Banwart Bolton

*Certified Public Accountants PA*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water District #1, Inc.  
Crawford County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District, #1, Inc., Crawford County, Kansas, as of and for the year ended December 31, 2019 and the related notes to the financial statement.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the Rural Water District #1, Inc., Crawford County, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Rural Water District #1, Inc., Crawford County, Kansas as of December 31, 2019, or changes in financial position and cash flows thereof for the year then ended.

### **Unqualified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance for the Rural Water District #1, Inc., Crawford County, Kansas as of December 31, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedule of regulatory basis receipts and expenditures-actual (Schedule 1 as listed in the table of contents) is presented for analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2018 Actual column presented in the schedule of regulatory basis receipts and expenditures – actual (Schedule 1 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2018 basic financial statement upon which we rendered an unmodified opinion dated January 23, 2019. The 2018 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2018 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 basic financial statement. The 2018 comparative information was subjected to the auditing procedures applied in the audit of the 2018 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2018 basic financial statement or to the 2018 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 comparative information is fairly stated in all material respects in relation to the 2018 basic financial statement as a whole, on the basis of accounting described in Note 1.



DIEHL, BANWART, BOLTON, CPAs PA

January 15, 2020  
Fort Scott, Kansas

**CRAWFORD COUNT RURAL WATER DISTRICT #1, INC.**  
**CRAWFORD COUNTY, KANSAS**  
Summary Statement of Receipts, Expenditures, and Unencumbered Cash  
Regulatory Basis  
For the Year Ended December 31, 2019

| Funds                 | Beginning<br>Unencumbered<br>Cash Balance | Receipts      | Expenditures  | Ending<br>Unencumbered<br>Cash Balance         | Add                                     |                        |
|-----------------------|---|---------------|---------------|--|---|------------------------|
|                       |   |               |               |  | Encumbrances<br>and Accounts<br>Payable | Ending<br>Cash Balance |
| Business Fund:        |   |               |               |  |   |                        |
| Water Utility         | \$ 246,079.87                             | \$ 191,603.73 | \$ 185,774.78 | \$ 251,908.82                                  | \$ 5,889.27                             | \$ 257,798.09          |
| Compensation of Cash: |   |               |               |  |   |                        |
|                       |   |               |               | Cash in bank - operating checking account..... |   | \$ 17,364.37           |
|                       |   |               |               | Cash in bank - savings accounts.....           |   | 96,762.24              |
|                       |   |               |               | Certificates of Deposit.....                   |   | 143,677.57             |
|                       |   |               |               | Totals.....                                    |   | \$ 257,804.18          |

The notes to the financial statement are an integral part of this statement.

**RURAL WATER DISTRICT #1, INC.  
CRAWFORD COUNTY, KANSAS**

Notes to Financial Statement  
For the Year Ended December 31, 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of the Rural Water District #1, Inc., Crawford County, Kansas, has been prepared in order to show compliance with the cash basis laws of the State of Kansas. The Kansas Municipal Audit and Accounting Guide (KMMAG), as approved by the director of the Kansas Division of Accounts and Reports, establishes the guidelines for the regulatory basis of accounting in the state of Kansas. The more significant of the District's accounting policies follow.

Nature of Organization

The Rural Water District #1, Inc., Crawford County, Kansas, is a quasi-municipal corporation governed by an elected seven-member council. The District provides water to over 200 members of the District in rural Crawford County, Kansas. Currently, the District pumps water from a well in Crawford County, Kansas. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Reporting Entity

This financial statement presents the Rural Water District #1, Inc., Crawford County, Kansas (primary government). There are no related municipal entities which should be accounted for in the District's financial statement.

Basis of Presentation - Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

The following type of funds comprise the financial activities of the Rural Water District #1, Inc., Crawford County, Kansas:

Business fund – funds financed in whole or part by fees charged to users of the goods or services (i.e. enterprise and internal service fund, etc.)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Regulatory Basis of Accounting and Departures from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

### Budgetary Information

Kansas statutes do not require budgets for Rural Water Districts.

### Deposits and Investments

Deposits and investments include a now checking account, savings accounts, and certificates of deposit. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

### Compensated Absences

The District does not pay for sick, vacation, or personal days for District employees.

Income Taxes: The Rural Water District #1, Inc., of Crawford County, Kansas, is recognized by the Internal Revenue Service as a not-for-profit municipality corporation, and is exempt from Federal and State income taxes. Accordingly, this financial statement does not include a provision for income taxes.

### Termination and Post Employment Benefits

The District does not have termination or post employment benefits.

## 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Compliance with Kansas Statutes

This financial statement has been prepared in order to show compliance with the cash basis laws and Statutes of the State of Kansas. The District was in apparent compliance with the cash basis laws and Statutes of the State of Kansas, except as follows:

Revenue bond requirements – The District's net revenues in the Utility Fund were not sufficient to meet revenue bond covenants in apparent violation of KSA 12-866 regarding bond ordinance provisions.

Deposit Security – Deposits in the bank were in excess of FDIC insurance. Securities were not pledged by the bank in apparent violation of K.S.A. 9-1402.



## 2. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (Continued)

### Compliance with Bond Rate Covenants

The District's Water System Revenue Bonds, Series 2013, contain the following covenants:

- a. There shall be transferred to the principal and interest account a prorata portion of the amount necessary to pay the next scheduled debt service payment. As of December 31, 2019, the District was required to have \$36,623.81 in a principal and interest account. The District has a savings account totaled \$96,762.24 at year end that it is using for this purpose.
- b. The District is required to deposit \$850.00 monthly into a Reserve Account for the bonds beginning March 1, 2013, until the account reaches \$100,000. As of December 31, 2019, the required bond reserve balance was \$59,500.00. The District has CD's that totaled \$143,677.57 at year end that it is using for this purpose.
- c. The District shall charge fees sufficient to pay the cost of operations, maintenance, improvements and debt service as well as maintain reserves. Net revenues must be at least 125% of the current year's debt service requirement. For the year ended December 31, 2019, net revenues totaled \$94,127.54, or 106% of the current year's debt service requirement of \$88,287.00.

## 3. **DEPOSITS AND INVESTMENTS**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices, but has limited the investments to time deposits at the local bank.

*Concentration of credit risk.* State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated.



### 3. **DEPOSITS AND INVESTMENTS** (Continued)

At December 31, 2019, the District's carrying amount of deposits was \$257,804.18 and the bank balance was \$257,924.77. The bank balance was held by one bank which did result in a concentration of credit risk. Of the bank balance, \$250,000.00 was secured by FDIC insurance and \$7,924.77 was unsecured. As of year-end, the District did not have any securities held by the pledging financial institutions' agents in the District's name.

### 4. **BENEFIT UNIT DEPOSITS**

Customers of the District are required to pay a deposit for a benefit unit prior to connecting to a rural water line. There were two new benefit unit deposit added during the year.

### 5. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages these risks of loss through various insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### 6. **FIXED ASSETS**

As discussed in Note 1, regulatory basis financial statements do not record property, plant and equipment as assets of the District. In addition, depreciation expense of the assets is not recorded. However, the District does keep track of fixed assets and the depreciation thereon for internal monitoring.

In connection with Fixed Asset accounting, plant and equipment are capitalized at cost and are depreciated on the straight-line method over the estimated useful life of the assets as follows:

|                      |                |
|----------------------|----------------|
| Office Equipment     | 5 Years        |
| Machinery            | 10 Years       |
| Plant and Equipment  | 30 to 40 Years |
| Bond Insurance Costs | 30 Years       |

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

Fixed assets and accumulated depreciation changed for the year as follows:

| Fixed Asset              | Beginning<br>Balance   | Additions           | Deletion    | Ending Balance         |
|--------------------------|------------------------|---------------------|-------------|------------------------|
| Water Plant and Lines    | \$ 2,491,007.52        | \$ -                | \$ -        | \$ 2,491,007.52        |
| Office Equipment         | 30,865.05              | -                   | -           | 30,865.05              |
| Bond Insurance Costs     | 36,715.00              | -                   | -           | 36,715.00              |
|                          | <u>\$ 2,558,587.57</u> | <u>\$ -</u>         | <u>\$ -</u> | <u>\$ 2,558,587.57</u> |
| Accumulated Depreciation | <u>\$ 678,779.61</u>   | <u>\$ 63,202.72</u> | <u>\$ -</u> | <u>\$ 741,982.33</u>   |

## 7. LONG-TERM DEBT

The District issued Water Revenue Bonds, Series 2013 dated February 7, 2013 in the amount of \$1,610,000 for the purpose of restructuring their debt and to build a new office building. The bonds require an annual principal payment ranging from \$35,000 to \$85,000 and semi-annual interest payments at interest rates ranging from 0.60% to 4.50%, and are scheduled to mature on August 1, 2043.

Changes in long-term liabilities for the District for the year ended December 31, 2019, were as follows:

| Issue              | Interest Rates | Date of Issue | Original Amount of Issue | Date of Final Maturity |
|--------------------|----------------|---------------|--------------------------|------------------------|
| Bond Payable       |                |               |                          |                        |
| Water Revenue Bond | 0.60% to 4.50% | 2/7/2013      | \$ 1,610,000             | 8/1/2043               |

  

| Issue              | Balances Beginning of Year | Additions/ New Debt | Reductions/ Principal Paid | Balances End of Year   | Interest Paid      |
|--------------------|----------------------------|---------------------|----------------------------|------------------------|--------------------|
| Bond Payable       |                            |                     |                            |                        |                    |
| Water Revenue Bond | <u>\$ 1,400,000.00</u>     | <u>\$ -</u>         | <u>\$ 35,000.00</u>        | <u>\$ 1,365,000.00</u> | <u>\$53,287.50</u> |

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

| December 31, | PRINCIPAL              | INTEREST             | TOTAL                  |
|--------------|------------------------|----------------------|------------------------|
| 2020         | \$ 40,000.00           | \$ 52,587.50         | \$ 92,587.50           |
| 2021         | 40,000.00              | 51,687.50            | 91,687.50              |
| 2022         | 40,000.00              | 50,687.50            | 90,687.50              |
| 2023         | 40,000.00              | 49,587.50            | 89,587.50              |
| 2024         | 40,000.00              | 48,387.50            | 88,387.50              |
| 2025 - 2029  | 235,000.00             | 219,012.50           | 454,012.50             |
| 2030 - 2034  | 275,000.00             | 173,312.50           | 448,312.50             |
| 2035 - 2039  | 330,000.00             | 115,475.00           | 445,475.00             |
| 2040 - 2043  | <u>325,000.00</u>      | <u>37,350.00</u>     | <u>362,350.00</u>      |
| TOTAL        | <u>\$ 1,365,000.00</u> | <u>\$ 798,087.50</u> | <u>\$ 2,163,087.50</u> |

## 8. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to December 31, 2019 through January 15, 2020, the date the financial statement was available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement except as follows:

### Refunding Bond Issue

In January the District issued 2020 Revenue Bonds totaling \$1,390,000 to refund the 2013 Revenue Bonds outstanding.

Sources and uses of the 2020 Bonds were as follows:

#### Sources:

|                        |                        |
|------------------------|------------------------|
| Bond amounts           | \$ 1,390,000.00        |
| Cash from the District | <u>43,000.00</u>       |
|                        | <u>\$ 1,433,000.00</u> |

#### Uses:

|                                |                        |
|--------------------------------|------------------------|
| Cost of Insurance              | \$ 23,193.47           |
| Underwriter's fees             | 20,850.00              |
| Debt Service on Refunded bonds | <u>1,388,956.53</u>    |
|                                | <u>\$ 1,433,000.00</u> |

The cash flows required to service the new debt is \$1,271,574.89 less than what was required to service the old refunded debt, resulting in an "economic gain" of \$105,733.44 which represents the net present value of the old debt service requirements and the new debt service requirements discounted at the effective interest rate of the new debt.

**CRAWFORD COUNT RURAL WATER DISTRICT #1, INC.**  
**CRAWFORD COUNTY, KANSAS**  
**WATER UTILITY FUND**

Schedule of Receipts and Expenditures - Actual - Regulatory Basis  
For the Year Ended December 31, 2019  
(With Comparative Actual Amounts for the Year Ended December 31, 2018)

|                                    | 2018<br>Actual       | 2019<br>Actual       |
|------------------------------------|----------------------|----------------------|
| Receipts                           |                      |                      |
| Operating Receipts                 |                      |                      |
| Metered water sales                | \$ 192,301.53        | \$ 183,951.68        |
| Nonoperating Receipts              |                      |                      |
| Interest income                    | 1,956.82             | 1,652.05             |
| Insurance and other reimbursements | 44,644.52            | -                    |
| Miscellaneous income               | 1,370.69             | -                    |
| Benefit Unit deposits              | -                    | 6,000.00             |
| Total Receipts                     | <u>240,273.56</u>    | <u>191,603.73</u>    |
| Expenditures                       |                      |                      |
| Operating Expenditures             |                      |                      |
| Operating supplies and maintenance | 36,044.46            | 37,185.22            |
| Payroll                            | 17,828.00            | 17,781.00            |
| Payroll taxes                      | 1,443.19             | 1,519.05             |
| Utilities and telephone            | 14,805.43            | 15,260.86            |
| Office supplies                    | 3,019.35             | 2,684.85             |
| Insurance                          | 6,251.00             | 6,530.00             |
| Professional fees                  | 7,842.10             | 5,859.00             |
| Meetings and reimbursements        | 6,767.93             | 5,856.74             |
| Sales taxes and water fees         | 3,770.97             | 4,263.43             |
| Miscellaneous expense              | 209.70               | 547.13               |
| Nonoperating Expenditures          |                      |                      |
| Debt Service                       |                      |                      |
| Principal paid                     | 35,000.00            | 35,000.00            |
| Interest paid                      | 53,900.00            | 53,287.50            |
| Capital Outlays                    | <u>48,843.52</u>     | <u>-</u>             |
| Total Expenditures                 | <u>235,725.65</u>    | <u>185,774.78</u>    |
| Receipts Over (Under) Expenditures | 4,547.91             | 5,828.95             |
| Unencumbered Cash, Beginning       | <u>241,531.96</u>    | <u>246,079.87</u>    |
| Unencumbered Cash, Ending          | <u>\$ 246,079.87</u> | <u>\$ 251,908.82</u> |